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Prospects for NATO Defense Spending

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An Intelligence Assessment

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August 1984

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Prospects for NATO Defense Spending [redacted]

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An Intelligence Assessment

This paper was prepared by [redacted] 25X1
Office of European Analysis. Comments and queries are welcome and may be directed to the Chief, European Issues Division, EURA [redacted] 25X1

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Prospects for NATO Defense Spending

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Key Judgments

Information available as of 1 July 1984 was used in this report.

West European members of NATO have reacted to heavy social welfare burdens, rising equipment costs, and unfavorable public opinion with increasingly austere defense plans:

- Budget deficits in most West European countries have climbed dramatically, particularly over the last three years. Governments are under intense pressure to trim defense budgets in order to preserve social welfare spending—which has increased from a fifth to a fourth or more of GDP since 1970.

- European defense budgets have been plagued by skyrocketing costs, especially those associated with advanced weaponry, and most countries have had great difficulty working accurate forecasts of inflation into their defense budget requests.

- Public opinion polls in Western Europe consistently show a strong preference for reductions in defense rather than in social programs. Attempts to significantly increase defense expenditures at the same time that some social welfare expenditures are being pared have met with intense political opposition.

- As a result of these pressures, none of the largest NATO Allies—the United Kingdom, France, West Germany, and Italy—and few of the smaller Allies have done well in meeting the 3-percent annual real growth in defense spending goal since 1978. Current plans for the Allies, taken together, call for about 1-percent real growth in 1984.

Faced with rising costs and constrained budgets, many of the Allies have made major reductions in personnel, maintenance, current operations, and training as their chief means of controlling defense spending:

- Personnel expenditures, as a percentage of non-US NATO-wide defense budgets, have declined from 54 percent in 1975 to less than 47 percent in 1983. Several countries—particularly France, the Netherlands, the United Kingdom, and Norway—have reduced military and civilian manpower and are relying more heavily on reserves.

- All NATO Allies have curtailed training and many have canceled or trimmed field exercises. In several countries, laws governing military unions have forced an increase in the already high costs of troop training.

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The Danish Navy, for example, has limited training at sea because of overtime compensation requirements for sailors. To further reduce fuel usage, annual pilot flying hours also have been severely limited in Belgium, the Netherlands, and Italy.

- In order to reduce operational costs, the Allies have phased out older weapon systems early to save on maintenance and have limited replenishment of spare parts and ammunition stocks.

- Most Allies have attempted to protect equipment procurement programs; as a result, procurement increased from less than 14 percent of their combined defense budgets in 1975 to over 21 percent in 1983. Nevertheless, a number of major projects have been canceled, and many more have been stretched out. In general, the Allies failed to meet goals established in 1978 for completion in 1983.

We expect political and economic pressure on NATO defense budgets to increase during the rest of the decade. Economic growth almost certainly will be sluggish, unemployment probably will not subside until the early 1990s, and social welfare costs consequently will remain high and difficult to constrain. Without at least 3-percent real growth in defense spending, many of the Allies' force improvement programs will be further curtailed:
- A recent preliminary SHAPE study predicted that most countries would achieve fewer than 70 percent of their 1984-88 force goals. Major shortfalls will occur in antitank helicopters, mine-warfare ships, submarines, stockpiles of munitions, and air defense missiles.
- Further cutbacks in training levels for pilots, reserves, and some ground units—already below NATO standards—are likely in a number of countries.

The United States could come under increasing pressure to compensate for the Allies' failure to meet their commitments. For example, Greece, Portugal, and Turkey—NATO's poorest members—already are almost totally dependent on foreign military assistance for day-to-day operations as well as force modernization. Among the more likely measures that the Allies could propose are:
- Reductions in host-nation support for US forces in Europe to permit shifts of national funds to procurement.
- Reductions in national contributions to the NATO Common Infrastructure Program.

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- Early movement toward an MBFR agreement that would reduce costs through lower force levels.
- More favorable terms on European procurement of US equipment, coupled with significant US purchases of West European arms.
- Expanded US reinforcement and pre-positioning commitments to offset declines in national forces.

We expect that the economic barriers to a substantial conventional force buildup will not lessen European discomfort over NATO's dependence on its nuclear deterrent. However, any debate over NATO doctrine is likely to focus less on nuclear dependence, per se, than on the proper conventional strategy and force mix to reduce it.

As the Allies address these issues in an era of economic stringency, their concerns over the state of US-European defense trade and US restrictions on technology transfer are likely to undercut further their support for an aggressive conventional force modernization effort. Rather, they are likely to emphasize proven systems over unproven future technologies and to fall back on the two-way street issue in arguing against major new funding programs.

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Contents

	Page
Key Judgments	iii
Introduction	1
Pressures on Defense Budgets	1
Competition From the Social Sector	2
Factors Within the Defense Sector	3
Defense Inflation	3
Procurement Inefficiency	8
Impact on Defense Programs	8
Personnel Cuts	8
Impact on Readiness	9
Operations and Maintenance	10
Procurement	11
Impact on Modernization	12
Outlook	13
Implications for the United States and NATO	14

 25X1

Prospects for NATO Defense Spending 25X1

Introduction

In 1978 the leaders of the NATO countries agreed that 3-percent annual real increases in national defense expenditures were necessary to maintain the Alliance's effectiveness in the face of continuing growth in Warsaw Pact forces and capabilities. The following year the NATO Allies began their slide into the worst economic slump in postwar history, which put significant upward pressure on government budget deficits. One policy response, dictated by both political and economic considerations, has been to limit defense spending. All of the Allies have had to cut back planned growth in real defense spending, and several countries have suffered actual declines in real expenditure levels. Despite this poor record, most Allies continue to support the NATO spending goal and all are committed to improvement in NATO's conventional capabilities. Nonetheless, because slow economic growth and prolonged unemployment are likely to persist, we expect most of the Allies to remain unwilling or unable to meet the 3-percent goal for several more years.[1]

This Intelligence Assessment focuses on the challenges faced by the NATO Allies as they attempt to maintain their commitment to conventional force modernization and real growth in defense spending. The paper reviews the economic and political pressures on the defense budgets of the NATO members, outlines the hard choices many have been forced to make in allocating scarce funds, and assesses the impact of resulting program cuts on force capabilities. It also assesses the prospects for growth in defense spending over the next three to five years.

Subsequent analyses will focus more sharply on the prospects for conventional force modernization in the face of continued fiscal austerity. These papers will assess the outlook for national defense programs as well as those for major NATO-wide improvements in such areas as air defenses and naval forces. 25X1

Pressures on Defense Budgets

The almost immediate squeeze on defense budgets that followed the 3-percent commitment has taken its toll on spending performance. Overall, non-US NATO has averaged only 2-percent real growth since the goal was adopted; by contrast, during the 1979-84 period the United States has averaged about 6-percent real growth. Current spending plans for the Allies call for about 1-percent real growth in 1984, the lowest since the goal was adopted, although supplemental appropriations and better-than-expected inflation rates may increase this. 25X1

Individually, only four NATO Allies—Norway, Canada, Luxembourg, and the United Kingdom—have averaged better than 3-percent real growth in defense expenditures since 1978. None of the four largest NATO Allies—the United Kingdom, West Germany, France, and Italy—has done particularly well in this period. While the United Kingdom averaged 3-percent real growth, much of the gain occurred in 1982 and was due to a surge in spending during the Falklands war. France and Italy roughly matched the non-US NATO average; recent shortfalls have pulled the West German average growth in spending down to 1.4 percent. Spending performance has been erratic among the other NATO Allies; several—Belgium, Denmark, Greece, and Turkey—have met the goal only once, or not at all, in the last six years (see table 1). 25X1

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[1] In 1977 the NATO Defense Planning Committee recommended that the Allies make every effort to achieve real increases in defense spending "in the region of 3 percent." The goal was first included in the resource guidance section of the 1977 Ministerial Guidance and was intended to apply to NATO's 1979-84 force goals/planning period. In 1978 the NATO Heads of State committed themselves to this goal. It has been reconfirmed in each Ministerial Guidance since then and now applies to force goals for the 1985-90 planning period. In 1985 it will be possible for the Allies to alter or delete the 3-percent goal.

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Table 1
NATO: Real Growth in Defense Expenditures, 1978-84 [a]

Percent

	1978	1979	1980	1981	1982	1983 [b]	1984 [c]	1979-84 [d] Average
Belgium	6.7	2.2	1.9	0.9	−3.3	−3.0	−0.4	−0.3
Canada	0.8	−0.7	3.6	3.1	4.9	5.0	5.0	3.6
Denmark	4.1	0.2	0.7	0.6	−0.3	0.8	−0.6	0.2
France	5.2	2.4	3.5	3.6	2.0	0.0	0.5	2.0
Greece	1.8	−2.8	−8.3	20.7	0.1	−0.3	−0.5	2.0
Italy	1.4	2.6	4.9	−0.5	3.2	1.1	0.8	2.1
Luxembourg	7.9	3.5	16.3	4.8	3.9	3.5	3.1	6.3
Netherlands	−4.8	4.2	−2.1	3.3	1.8	2.7	2.0	2.0
Norway	7.8	1.9	1.8	2.7	4.1	2.8	3.5	3.0
Portugal	1.8	6.3	6.0	0.9	0.5	0.4	NA	2.4
Turkey	0.4	2.2	2.1	1.8	4.6	1.9	1.8	2.5
United Kingdom	−1.0	2.2	2.9	1.4	6.4	3.1	2.0	3.1
West Germany	2.7	1.5	2.3	3.2	−0.9	1.9	0.2	1.4
Non-US NATO	2.0	1.9	2.7	2.9	2.6	1.8	1.2	2.1

[a] Defense deflator used where available, otherwise the GDP deflator used. Data derived from official country reporting to NATO; French data derived from NATO and other sources.
[b] Estimate.
[c] Forecast.
[d] Years of the 3-percent goal.

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The shortfall in military goods and services not purchased because of spending squeezes becomes harder to overcome over time. The aggregate shortage during 1979-84 amounts to over $11 billion (see table 2). In order to make up for these losses, the Allies, as a group, would have to boost 1984 real defense spending by 11 percent over the currently planned levels. 25X1

In attempting to allocate scarce resources in time of austerity, European governments have been under increasing pressure to make additional cuts in already slim defense budgets. Much of the pressure has come because of the increasing costs of social welfare programs. But phenomena within the defense sector—particularly the spiraling costs of new hardware as well as procurement inefficiencies—also have taken a heavy toll on defense programs. 25X1

Competition From the Social Sector

Given Western Europe's political commitment to an extensive social welfare system, the rise in unemployment in the past few years has caused the costs of such programs to skyrocket. Unemployment in the non-US NATO countries has grown from 5.5 million persons in 1973 to 19 million in 1983, the highest level since the Great Depression. Rising expenditures together with recession-induced tax losses have pushed government budget deficits to record levels. The expansion of the public debt, coupled with higher interest rates, has increased government debt service costs, thus further worsening fiscal positions. 25X1

Table 2
NATO: Comparison of Actual Defense Expenditures and the 3-Percent Goal, 1979-84

Billion 1983 US $

	3-Percent Goal	Actual	Difference	Difference as a Percent of 1984 Budget
Total	**463.9**	**452.6**	**−11.3**	**11**
West Germany	135.9	129.8	−6.1	28
Canada	36.9	36.6	−0.3	4
Norway	9.9	9.8	−0.1	6
Portugal	4.0	4.1	0.1	0
United Kingdom	138.6	138.6	0.0	0
Greece	13.7	13.1	−0.6	26
Belgium	18.1	16.6	−1.5	56
Italy	57.6	56.6	−1.0	10
Denmark	9.2	8.4	−0.8	57
Turkey	14.4	14.2	−0.2	8
Netherlands	25.6	24.8	−0.8	18

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Social welfare expenditures have increased since 1970 from about 20 percent of GDP to roughly 25 to 30 percent in most of the major European NATO countries. For most countries, on the other hand, defense expenditures have rarely topped 5 percent of GDP, and in most cases have hovered around 3 or 4 percent for well over a decade (see figure 1). Even though defense spending is not a major factor in the overall budget crunch in Western Europe (see table 3), public opinion polls have consistently shown strong sentiment for defense reductions. Although some NATO countries have been able to adopt austerity measures curtailing some social benefits and raising taxes in an attempt to stop the flow of red ink, all have found it politically difficult to maintain defense spending, much less increase it.

Factors Within the Defense Sector

The small real gains in defense spending have been insufficient to maintain current forces and to fund new modernization programs. Even those countries that have met the 3-percent goal—particularly Norway and Canada—have been forced to curtail major defense activities. Key factors have been the increasing cost of advanced weapon systems and procurement inefficiencies that have plagued NATO for years.

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Defense Inflation. Rapid technological change and heavy research and development costs make it extremely difficult for NATO governments to program defense cost increases accurately into their procurement planning. A third-generation tank, aircraft, or field artillery piece, for example, can be twice as expensive as its second-generation predecessor (see figure 2).[2] The current strength of the American dollar also has added to these cost increases. The Allies spend roughly 3 to 5 percent of their defense budgets in the United States, chiefly on equipment.

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Inflation in the defense sector tends to run ahead of overall inflation in the economy (see figure 3). Most countries have failed to forecast inflation accurately for use in their budget process, and NATO's attempts

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[2] Furthermore, although new systems have increased capabilities, earlier systems generally must be replaced on a one-for-one basis to keep pace with the increasing number and sophistication of opposing Soviet systems.

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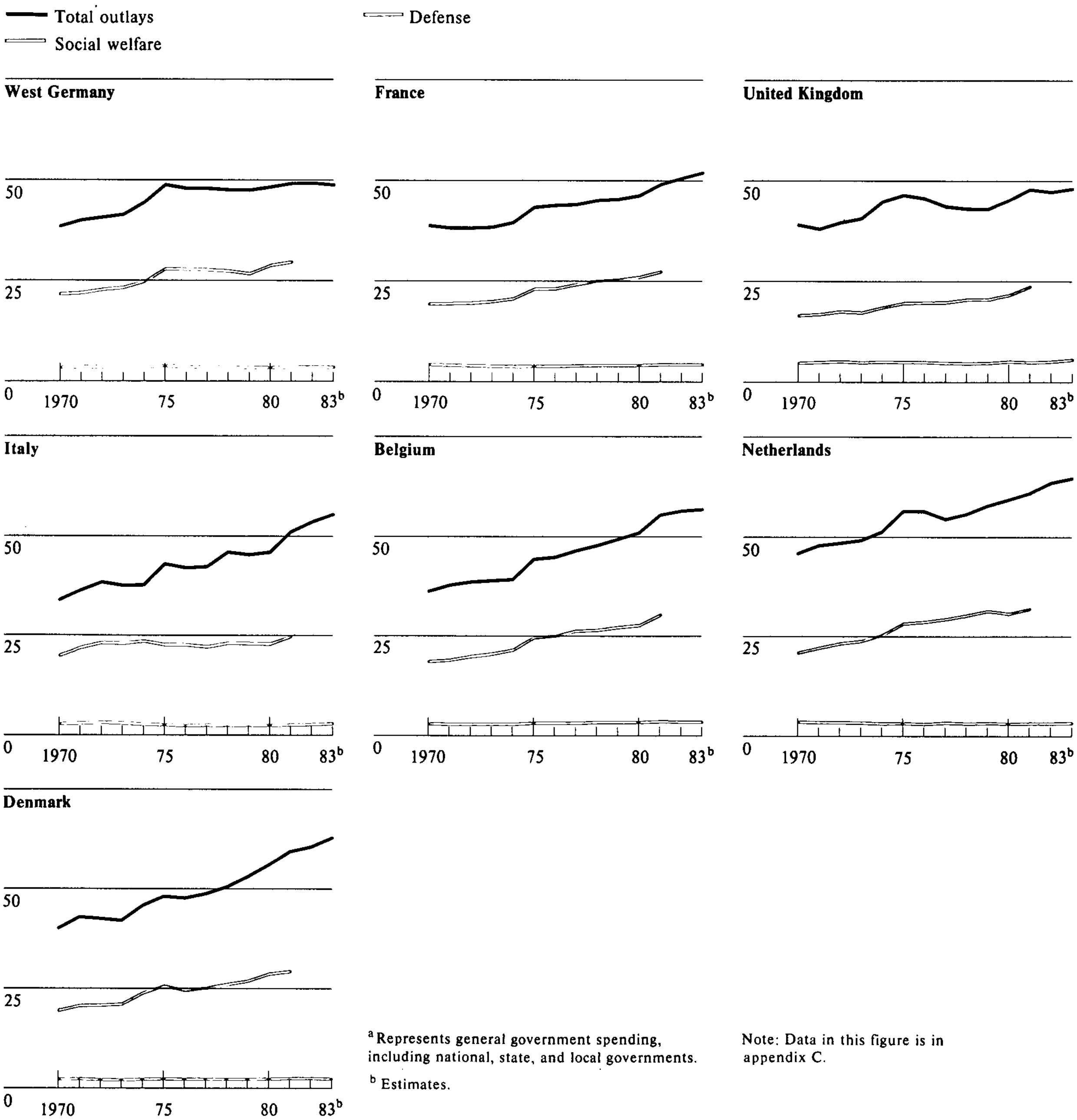
Figure 1
Selected Countries: Government Spending[a] as a Share of GDP, 1970-83

Percent



[a] Represents general government spending, including national, state, and local governments.

[b] Estimates.

Note: Data in this figure is in appendix C.

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Table 3
NATO: Defense Expenditures as Share of National Budgetary Expenditures, 1960-83 [a]

Percent

	1960-69 Average	1970-79 Average	1980	1981	1982	1983 [b]
United States	44.1	26.6	24.7	26.1	27.1	29.4
Non-US NATO [c]	23.3	16.9	15.4	15.6	15.8	15.9
Belgium	12.8	9.9	8.7	8.8	8.3	8.1
Canada	20.7	10.2	9.3	10.0	10.0	10.2
Denmark	12.8	7.6	7.3	7.1	6.9	6.8
France	NA	NA	17.6	17.3	17.9	18.5
Greece	21.1	24.8	23.0	23.2	21.8	19.3
Italy	14.0	8.0	5.7	6.0	5.3	5.1
Luxembourg	4.5	2.9	3.1	3.2	3.1	3.5
Netherlands	16.0	11.0	9.9	9.8	9.5	9.3
Norway	17.7	12.3	10.3	10.3	10.9	11
Portugal	37.8	19.1	11.7	10.3	11.3	10.2
Turkey	25.4	20.2	18.2	21.8	21.6	21.4
United Kingdom	23.8	16.3	15.2	15.4	16.5	16.7
West Germany	30.1	24.3	22.5	22.4	22.2	22.6

[a] The figures represent defense spending as a share of the budget of the central government.
[b] Estimated.
[c] Excludes France. Comparable data on French defense spending as a percentage of the national budget for 1960-79 are unavailable because France does not release official statistics based on standard NATO counting rules. We estimated French data for 1980-83 by using a variety of non-NATO sources.

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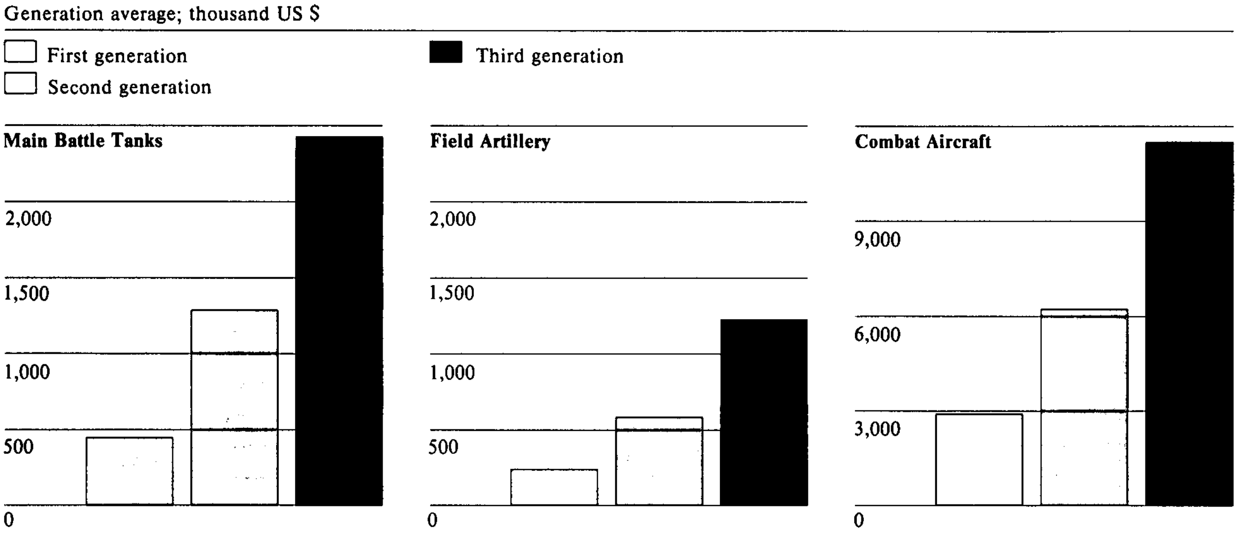
to develop a standard forecasting methodology for defense inflation have been unsuccessful. Without valid forecasts, many Allies—particularly Norway, Italy, Greece, Turkey, and Portugal—have found themselves short of funds before the end of the year and unable or unwilling to appropriate supplemental monies. Norway, for example, has consistently planned on 3- to 4-percent real growth and has fallen short over the last several years or had to make last minute supplemental appropriations, partly because of inaccurate estimates of inflation. 25X1

The key factor contributing to higher defense inflation rates—particularly for operations and maintenance (O&M) and procurement—is the defense sector's heavy reliance on volatile areas of the economy with higher-than-average inflation (for example, specialty metals, aerospace). In addition, unlike most other sectors of the economy, the defense sector is limited in its ability to react quickly to cost increases by altering its purchases, in part because of long planning leadtimes for systems acquisition. Personnel costs, on the other hand, are tied to more standard measures of inflation and are easier for governments to control. 25X1

Figure 2
NATO: Cost of Major Equipment, 1983



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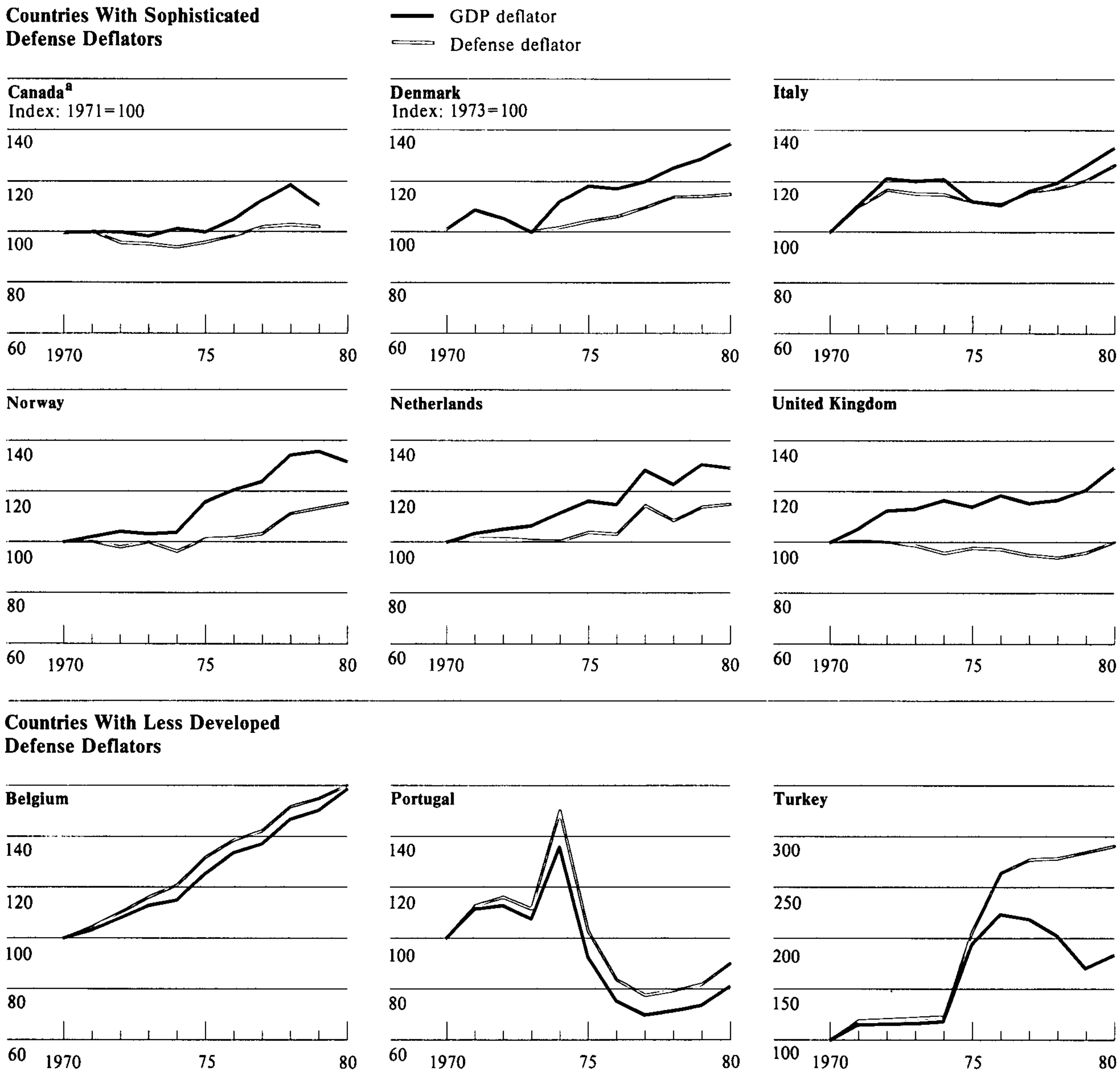
The damaging impact of inflation on defense capabilities has been compounded in the United Kingdom and Canada by recent decisions to alter their forecasting methodology and in France by highly optimistic projections of inflation through 1988:

- The United Kingdom and Canada traditionally have had possibly the best procedures in the Alliance for measuring inflation in the defense sector. In both countries, however, the ministries of the treasury are attempting to control the rise in nominal government spending. As a result, the ministries of defense have been forced to adopt more general measures of inflation that are lower and less accurate than previous defense-specific methods. In Canada, defense inflation estimates had been running 1 to 2 percentage points higher than the rate derived by the recently adopted method. In the United Kingdom, a defense official recently stated that defense inflation for military procurement had been nearly twice as high as inflation in the overall economy. Moreover, London now has projected defense spending for 1986/87 based on an assumed inflation rate of only 3 percent, a number we and many private forecasters consider too low even for nondefense sectors.

- In France, the Socialist government's 1984-88 defense plan contained highly optimistic projections for overall annual inflation through 1988—originally 6.2 percent, later increased to 6.6 percent for 1984 and 5 percent for each of the following years. These forecasts have served as the basis for similarly optimistic defense procurement plans. We project higher rates of overall inflation and expect inflation in the defense sector to run ahead of that. 25X1

Figure 3
Defense Expenditures in Constant Prices, 1970-80

Index: 1970=100 (except where otherwise noted)



Note: Where line using GDP deflator is above line using defense deflator, defense inflation has been higher. Where line using GDP is below line using defense deflator, GDP inflation has been higher.

[a] Has recently dropped defense specific deflators.

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Procurement Inefficiency. Inefficient procurement practices also have contributed to the high costs and reduced returns of Allied force modernization programs. The Allies have shown only limited willingness to set defense industrial competition aside and to standardize equipment within the Alliance, and significant amounts of money are spent on redundant research and development. NATO countries are currently buying three different fighter interceptors, three main battle tanks, and 10 different models of armored vehicles. The diversity in weapons and suppliers also has led to losses in the economies of scale that procurement from a single source would permit.

The insistence of some countries on subsidizing national industries has greatly raised costs for individual programs. Canada, for example, will spend substantially more on a per unit basis on new indigenously built frigates than it would on similar ships produced in countries with established military shipbuilding industries. In fact, we estimate that the Canadians could replace almost all of their current 24 frigates with ships purchased abroad for about the same amount they are spending to build six frigates domestically.

Coproduction and multinational development are generally more cost-efficient than each state developing and producing its own separate weapon system, but they are still more costly than if all states bought from a single manufacturer. According to a study of the F-16 program, for example, coproducing planes in the European consortium as opposed to the United States added 30 percent to their cost.

Impact on Defense Programs

Faced with rising costs and constrained budgets, the Allies have engaged in a round of reductions in present and planned defense activities, including current operations, procurement, and force modernization. According to NATO's International Staff and defense attache reporting from the individual countries, these austerity measures already have led to a decline in NATO's conventional deterrent and warfighting capabilities. In December 1982 the NATO Force Plan General Report noted that the need to save had led some countries "to reductions in the funds for training and operations and to postponements of equipment modernization programs to such an extent that they begin to endanger the very substance of the forces involved." The report expressed the fear that the Allies with greater commitments to defense might have to increase their own forces or accept a decline in the overall effectiveness of NATO's conventional deterrent. Subsequent NATO reports have echoed these conclusions. 25X1

Personnel Cuts

The first area to feel the ax generally has been personnel costs. To control costs, all of the Allies have placed pay freezes or pay caps on their military and civilian personnel, and many have introduced minor cuts in the perquisites for military personnel. On a NATO-wide basis, excluding the United States, personnel expenditures as a percentage of the budget have declined from 54 percent in 1975 to under 47 percent in 1983. The percentage share devoted to procurement, on the other hand, has risen, while other categories have remained relatively stable (see figure 4).[3] 25X1

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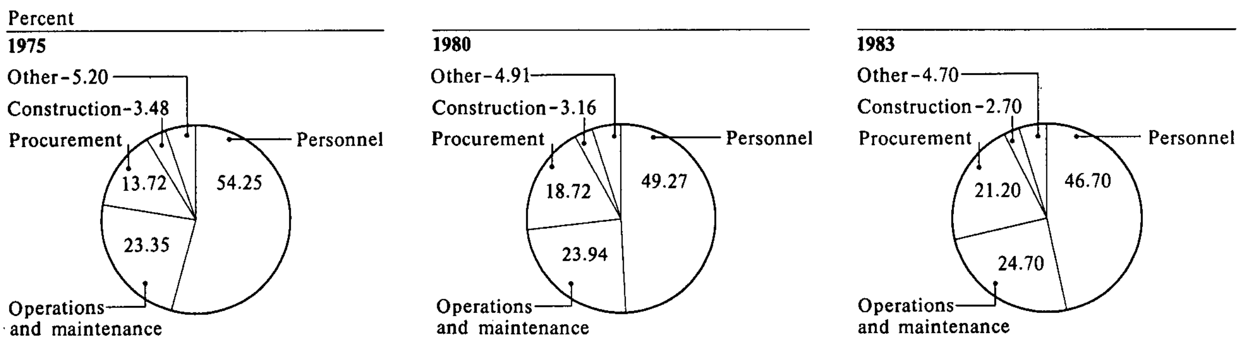
Several countries—notably France, the Netherlands, the United Kingdom, Norway, and Denmark—are reducing military and civilian defense personnel: 25X1

- Large cuts in military personnel are planned in France where the Socialist government's new 1984-88 defense plan calls for a reduction of some 35,000 troops out of its 1983 strength of about 480,000.[4]
- The Dutch plan to cut 2,300 air defense personnel by 1986 or 1987 from a total strength of 108,000. 25X1
- The British plan to reduce the Navy by about 10,000 sailors out of roughly 70,000; London already has eliminated some 39,000 civilian defense slots out of about 225,000 in 1981 and plans to cut another 9,000 in the next several years.

[3] See appendix A for a breakdown of budgets by country. 25X1
[4] 3,500 in the Navy, 5,500 in the Air Force, 22,000 in the Army, 500 in general commands, and 3,500 civilians. 25X1

Figure 4
NATO: Major Resources Categories as a Share of Defense Budget, 1975-83[a]



[a] Excludes France, Turkey, Greece, and Luxembourg.

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- Norway recently reduced three standing units, which form the cadre for mobilization, to zero manpower and may eliminate one of its 13 brigades.

- Denmark's total military strength has already declined some 25 percent since the early 1970s, and Copenhagen has indicated it is likely to reduce its standing regular Army by 50 percent from about 7,000 to 3,500 in the next few years.

Norway, Denmark, the Netherlands, and Belgium also face higher personnel costs because of soldiers' unions. Laws granting overtime for troops who work more than 40 hours a week increase the already high costs of training and operating for extended periods of time. The Danish Navy, for example, is unwilling to engage in extensive training at sea because of overtime compensation requirements for sailors. Danish Army field exercises are similarly hampered and, according to defense attache reporting, military capabilities have suffered appreciably. The Norwegian Navy in 1983 shortened its fall exercise from two weeks to one; rather than pay overtime, it ordered its sailors to take additional leave following the exercise.

Impact on Readiness. Budget limits, adverse demographic trends, pay caps, and personnel cuts will aggravate a longstanding problem of maintaining adequate military manpower levels. All Allies face serious shortages of skilled professional technicians in all services and shortages of pilots and maintenance personnel in their air forces. These positions require too much training to be filled by conscripts, given their short terms of service. Although the current economic slump makes military service attractive, the Allies will have difficulty retaining trained military personnel as their economies recover if pay and benefits are not increased. According to the US defense attache in Oslo, Norway already has been suffering a steady loss of pilots despite the recession because they can get lucrative civilian jobs flying for North Sea oil firms.

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The cutbacks in personnel have forced most nations to increase their reliance on reserves to bring their forces to wartime strength. The United Kingdom, for example, will require an additional 40,000 reservists by 1988 over the current 140,000 to offset a decline in

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active duty forces and accommodate an increase in the wartime force structure. At the same time, reductions in annual reservist training are impacting on overall force readiness. Norway, which is totally dependent on reserve mobilization to man its forces in wartime, has been unable to fund enough reserve training to keep these troops combat ready. In 1983 no reserves were called up for the annual fall ground forces exercise because of the extremely tight budget. As fewer reservists are called up for training in peacetime, NATO countries will be faced with the need to provide more extensive refresher training at the time of mobilization, thus extending the time needed to bring their forces up to wartime strength and to acceptable levels of combat effectiveness.

While most countries have reduced active duty personnel to achieve cost savings, West Germany has maintained its commitment to a 495,000-man active duty force. The Bundeswehr, however, will face a severe manpower crunch in the late 1980s, as the number of draft-age males drops to about half of what is needed to maintain a 495,000-man force. Although Bonn is likely to extend conscript service time and lower its physical standards, it will require improved wage and benefits packages to attract more volunteers for extended service. According to Chancellor Kohl, this package will be extremely costly and will impact on other defense budget programs.

The impact of personnel cuts on overall readiness can go relatively unnoticed in the short term, particularly in peacetime. Most countries still have a sufficient number of personnel adequately trained to meet critical requirements. If the steady declines continue, however, we believe that the armed forces in all countries—particularly in the Netherlands, Norway, and Belgium—will suffer noticeably as skills atrophy and a new generation of reservists fails to receive sufficient training.

Operations and Maintenance

Another vulnerable area of the defense budget with direct impact on military capabilities has been Operations and Maintenance (O&M).[5] Although the O&M account increased slightly as a share of the total defense budget for NATO overall, the chief factor has been marked inflation in such areas as maintenance and spare parts, as well as high fuel costs. As a result, the Allies, faced with tight budgets, have curtailed training in the active forces, cut exercises, strictly limited the use of fuel, and phased out older weapon systems without replacing them in order to reduce maintenance. The Belgians, Danes, Dutch, and Italians have limited pilot flying hours to levels well below the NATO minimum of 180, and far below the NATO standard of 240 hours. The French plan to maintain current minimum flying hours for their combat pilots but are cutting back the flight time for other pilots (see table 4). Every country has canceled some ground forces field training exercises, and those exercises that do take place are under strict limits on fuel usage. Dutch and Norwegian ships are ordered to sail at reduced speeds.

Table 4
Estimated Average Flight Time Per Flight Crew

Hours per year

	1978	1983
Belgium	200	125
Canada	220	220
Denmark	140	160
West Germany	180	180
Greece	NA	180
Italy	170	150
Netherlands	190	160
Norway	200	200
Portugal	NA	173
Turkey	NA	190
United Kingdom	230	220

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The severe restrictions on pilot flying hours in Belgium, Italy, and the Netherlands—as much as 50 hours less than the NATO minimum—will mean that new pilots will not receive sufficient training, and the

[5] The "O&M" account in defense budgets generally consists of funding for the day-to-day operations and maintenance of military forces, including spare parts, petroleum products, and training costs but excluding military pay and allowances.

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skills of current pilots will deteriorate from lack of use. This could cause a serious decline in aircrew proficiency, according to attache reporting, at a time when Warsaw Pact tactical air capabilities overall are increasing.

The NATO navies have been especially hard hit by the cuts in maintenance. Several countries are delaying ship overhauls, and a few, particularly the Netherlands, Norway, and Denmark, have placed older ships on reserve status earlier than planned in order to save on maintenance costs. Other key program areas also have been affected: the Belgians and Dutch have begun an early phaseout of their old Nike-Hercules surface-to-air missiles (SAMs) to save on their maintenance costs; the poorest members of NATO—Portugal, Greece, and Turkey—are now almost totally dependent on outside assistance to maintain their aging equipment; and NATO reports a serious shortage of spare parts throughout the Alliance for all three services.

Procurement

The Allies have tried hardest to avoid cutting procurement, which has grown steadily as a share of defense budgets under the 3-percent real growth goal (see figure 4). Equipment expenditures have been less constrained than other categories of spending for two primary reasons:

- The Allies have reached a consensus, embodied in the 1978 Long-Term Defense Program (LTDP), on the importance of modernizing their weapons inventory.
- Defense procurement is important to countries with substantial domestic defense industries—especially the United Kingdom, West Germany, Italy, Belgium, the Netherlands, and France—as a means of maintaining both employment and an emergency defense industrial base.

Despite the relative protection afforded funds for procurement, many major equipment modernization programs are being cut, curtailed, postponed, or stretched out due to high costs. Among such programs are many crucial to bolstering NATO's conventional forces:

- The British, Italians, and West Germans have stretched out their procurement of the jointly produced Tornado multirole aircraft as a result of burgeoning costs. 25X1
- The Belgians have delayed until 1990 the purchase of a short-range air defense system. Other delayed purchases include new mine-warfare ships—put off four years—and new armored personnel carriers and self-propelled howitzers—postponed indefinitely.
- Norway has slowed its plan to modernize its 13 brigades by 1990; only 10 brigades will be modernized by 1998. Oslo has also canceled plans to modernize the Army's Leopard I tanks and has reduced its purchase of 120-mm guns by a third.

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- Canada's naval modernization program has been stretched out; currently only six of 24 frigates have been funded.
- Portugal's plan to acquire three new frigates—one to be partially paid for by the NATO Allies—has been repeatedly delayed by Lisbon's refusal to allocate sufficient funds for its part of overall construction costs.
- Initial deliveries of the US Patriot surface-to-air missile (SAM) system to the Dutch have been delayed from 1986 to 1987.
- Italy has delayed, for the time being, plans to purchase 66 antitank helicopters and 300 replacements for its old M-47 tanks.
- France has stretched out or delayed most of its major conventional forces programs, including procurement of the Mirage 2000 interceptors, new armored vehicles, and new artillery. The Hades short-range nuclear missile also has been delayed several years. 25X1

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Impact on Modernization. While the lost effectiveness resulting from inadequate funds could be made up fairly quickly in most defense sectors with renewed spending, the impact of procurement cuts and delays on equipment modernization is more serious and will pose problems through the next decade. Even if additional funds were forthcoming, hardware cuts and program cancellations could not quickly be turned around because of the long leadtimes in research, development, and procurement. 25X1

The cuts and delays in defense procurement programs imposed in most countries have forced the Allies to continue using obsolescent equipment. Analysis of the Allies' defense plans indicates that while modernization is taking place in a number of areas—especially in new aircraft and armored vehicles and chiefly in NATO's central region—the northern and southern flanks have lagged well behind; overall the rate of modernization has slowed and all of the Allies failed to meet planned equipment increases for 1983. The Major NATO Commanders (MNCs), for example, commenting on the serious shortfalls in the current Allied compliance with the NATO Force Goals for 1984-88, have concluded that current force planning "will *not* provide adequate means to support a *flexible* response" (see table 5). Shortfalls are affecting NATO capabilities in a number of key areas:

- NATO's *air defense* capabilities in the central region have been degraded. For example, the Belgian decision to begin phasing out Nike-Hercules surface-to-air missile batteries in 1983 without purchasing the Patriot to replace them and the Dutch decision to phase out two Nike-Hercules batteries early and delay Patriot deliveries are creating a gap in the air defense belt in West Germany. The Alliance also suffers from a serious shortfall in short-range air defense systems, particularly to protect airbases vital for US reinforcement. Little progress has been made in improving NATO's integrated air defense radar net, and there has been no significant movement toward a NATO-wide Identification Friend or Foe (IFF) system.

- NATO's International Staff has cited significant Alliance-wide shortfalls in *naval modernization* as more old ships are retired without replacement.

Table 5 *Percent*
NATO: SHAPE Projection of Allied Compliance With 1984-88 Force Goals [a]

	Projected Achievement of Force Goals (1988)	Assumed Defense Expenditure Real Growth Rate
Belgium	55	0.0 [b]
Canada	68	3.0
Denmark	51	2.3
West Germany	76	1.0 [b]
Italy	65	2.3
Luxembourg	75	3.2
Netherlands	65	2.3
Norway	50	3.4
United Kingdom	75	3.0

[a] NATO force goals are target force levels and force modernization programs derived from force plans submitted by the Major NATO Commanders. These plans are discussed and then approved by the Military Committee and the Defense Planning Committee. They cover the forces needed to meet the Warsaw Pact threat for the planning period.
[b] Within 0.5 plus or minus of this number.

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NATO faces a serious shortage of mine warfare ships, as well as declining numbers of escorts and submarines, and some replacement programs are being delayed. Most countries face serious shortages in naval munitions stockpiles. Many have cut back plans for needed improvements in electronic warfare (EW) capabilities, especially modern EW equipment for the Navy and Air Force.

- Although most major *ground forces* programs have not suffered serious reductions, the West Europeans have postponed some improvements, especially in field artillery, antitank guided weapons, and antiarmor helicopters, until later in the decade. Moreover, the Allies have cut back or canceled planned increases in ammunition stockpiles, as well as equipment reserves and spares, for all three services, causing most members to fall well short of NATO standards for combat sustainability. 25X1

Outlook

Despite the nascent economic recovery, we believe most of the NATO Allies will not be willing to implement significant increases in their defense spending for several years. Budget deficits and unemployment almost certainly will remain high through the rest of the decade, and little improvement in public support for increased defense spending is expected. Several Allies—including France, the United Kingdom, and West Germany—already have announced spending plans for the next several years that we believe will provide only minimal real growth, probably only around 1 to 2 percent.

NATO is unlikely to abandon the 3-percent goal in the near future. Most of the Allies have found the goal useful as a means of countering domestic resistance to increased defense expenditures. By arguing that real growth in defense spending is necessary to meet an Alliance commitment, they have been able to secure at least some real increases, although not near the 3-percent goal. In recent discussions on the 1985 Ministerial Guidance, the Allies once again affirmed their support for retaining the goal of real growth in defense expenditures "on the order of 3 percent" for the Alliance as a whole.

Nevertheless, our analysis and their own plans indicate that the Allies will not significantly increase defense spending for the next several years. Several could suffer real declines:

- *Belgium's* defense expenditures are projected to decline further in 1984, on the heels of a 6-percent real drop over the last two years. We estimate that the Belgian economy is likely to experience at best little real growth for the next several years, and the defense budget will continue to suffer severe constraints.

- *Greece, Portugal, and Turkey*, NATO's three poorest members, are almost totally dependent on foreign military assistance for day-to-day operations and force modernization. As in the past, real growth in defense expenditures will have little positive impact on force capabilities because it will be almost totally absorbed by personnel expenditures and the high costs of maintaining obsolescent equipment. Turkey claims that it will achieve 3-percent real growth for the next few years, although such goals usually have not been met in the past. Portugal is unlikely to have any significant real growth and could suffer real declines because of its worsening economic situation. The Greeks are likely to suffer persistent real declines, or at best register little real growth, for the rest of the decade because of the weak economy and increased emphasis on social spending by the current Socialist government.

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Most are likely to attain only limited real growth for the next several years: 25X1

- *Denmark*'s defense spending is now barely sufficient to maintain current forces and offers little, if any, prospect for supporting force improvements. The Danes are calling for a 0.6-percent real decline in 1984 after marginal growth in 1982 and 1983. Copenhagen recently announced a new defense agreement that calls for no real growth in defense expenditures through 1987, eliminating any chance for significant military modernization.

- *France*'s rate of real defense spending growth in 1984 is likely to be around 1 percent following the first no growth defense budget in over 20 years in 1983. If inflation runs at levels higher than those now being estimated by the government—as most private forecasters project—the Socialist government will come under pressure to make further cuts in the defense budget to fund social programs. 25X1

- *Italy*'s current defense spending plans call for real growth of only about 1 percent in 1983 and 1984, although the Italians averaged 2.5-percent real growth between 1978 and 1982. Given Italy's economic problems, it is likely that Rome will not achieve growth near the 3-percent level in the next several years.

- *The United Kingdom,* according to its May defense White Paper, is now calling for 1.8-percent real growth for 1984/85 and claims it will return to 3-percent growth in 1985/86. Previously, in its March public expenditures White Paper, London said it was planning 3-percent real growth in defense expenditures only through 1984/85. The March White Paper claimed there would be real growth for 1986/87—at less than 1 percent—but assumed that overall inflation would drop to under 3 percent. Because we believe such a decline in the inflation rate is unlikely, we expect the defense budget will be severely constrained throughout the decade at the same time that several major naval procurement programs, including the Trident ballistic missile submarine, will be under way. We expect the British to curtail some naval shipbuilding programs and place further constraints on operations and training.

- *West Germany*'s defense spending is projected to grow by only 0.2 percent in real terms in 1984, followed by nominal increases of 3.7 percent in 1985 and 3.5 percent in 1986, according to the five-year defense plan. Such nominal growth rates would barely compensate for expected overall inflation. In their current discussions with NATO on their 1985-90 force goals, the German military has based its limited modernization plans—which will not meet NATO's force goals—on no real growth through the end of the decade.

A handful of the smaller Allies have announced fairly ambitious spending plans and are likely to have real growth near the 3-percent level:

- *Canada* has announced plans for at least 3-percent real growth in defense expenditures over the next three years. In the late 1970s Ottawa began a modest force modernization program calling for new armor, aircraft, and ships, but there will be no increases in troop strength.

  Canada will be able to fulfill neither its national missions nor its NATO roles even with these improvements and planned spending growth.

- *The Netherlands'* Defense White Paper for 1983-93 projects 2-percent real growth in spending through 1986 and 3 percent in the later years. However, The Hague has ordered all the military services to contribute an as-yet undetermined percentage of their budgets to the government bailout of the Rhine-Schelde-Verolme shipyards. The Navy has been ordered to procure some ships out of cycle, and the other services have had their procurement budgets curtailed, disrupting several of their modernization programs, in order to pay for the new ships.

- *Norway* continues to plan at least 3-percent real growth in defense spending for the next several years. In a public statement in mid-1983, however, the Chief of Defense said that even this would not be sufficient to fund all needed programs and that gaps in Norway's defensive capabilities would persist for the next seven years. The Norwegians also have often underestimated inflation and fallen below their announced defense spending goals. In 1983, real growth was around 2.8 percent instead of a planned 3.5 percent despite a last minute supplemental appropriation. 25X1

Implications for the United States and NATO

The lack of growth in defense spending in Western Europe could pose a serious challenge to Alliance cohesion and defense effectiveness. NATO as an institution has no effective mechanism to press its members to maintain their defense efforts. While the 25X1 Allies can collectively and individually register their displeasure over cuts in national defense efforts, they cannot force restoration. Countries like Canada and Denmark, for example, have been able to reduce their defense efforts unilaterally despite condemnation from the other Allies. Similarly, the Allies also have been unable to persuade the Belgians to reverse their decision to withdraw their air defense forces from the Central Region. 25X1

In the next several years, we expect the Europeans 25X1 can at best achieve some short-term adjustments to 25X1 soften the impact on military capabilities of current budget constraints. Measures already taken by some and likely to be implemented by others include:

- Reconsidering procurement priorities, emphasizing critical needs and curtailing or canceling other programs.
- Cutting active forces and increasing reliance on reserves to arrive at a smaller but theoretically better trained and equipped active cadre.

In our view, these solutions will do little to avoid serious long-term dislocations in NATO's military capabilities.

If the current shortfalls throughout NATO are followed by further cuts, the United States could come under increasing pressure to compensate for the Allies' inability to meet their commitments. Among the proposals that the Allies may put forth are:

- *Reductions in host-nation support for US forces in Europe to permit shifts of national funds to procurement.* The host-nation support (HNS) program is designed to compensate for critical shortages in US logistic support for its forces in Europe. HNS agreements with Allied nations on whose territory US forces are stationed—or will be in wartime—involve both preparations for wartime logistic support of US forces as well as peacetime arrangements including support to the annual US Reforger exercise, ammunition and equipment storage for reinforcing units, and bulk petroleum storage. Although the HNS initiatives primarily involve planning for wartime, the program does entail current costs that compete with other critical programs for national funding. For example, Washington's current five-year HNS agreement with West Germany involves roughly a 50-50 sharing of peacetime costs totaling, for the period, some $580 million (FY 1983 dollars).

- *Reductions in national contributions to the NATO Common Infrastructure Program.* NATO's infrastructure program covers the capital costs of commonly funded and standardized military facilities for wartime use by NATO forces.[6] Currently the United States and West Germany each contribute over a fourth of these funds, and Bonn has led the resistance by some Allies to attempts to increase infrastructure expenditures. In addition, the Belgians have recently obtained NATO agreement to a reduction in their contribution to the infrastructure program due to their financial difficulties. As the budget squeeze continues, other Allies could begin to focus on the infrastructure program as a means of saving funds, either by cutting national contributions or by requesting infrastructure funds for national construction projects.

- *Demands for more favorable terms on European procurement of US weapons and equipment, in conjunction with significant US purchases of West European equipment.* The Allies will continue to look toward greater European defense cooperation—particularly in weapons research and development—as a means of controlling costs and improving their defense industrial base. For the immediate future, however, many will remain heavily dependent upon the United States for advanced weaponry. Given the historical imbalance in US-European defense trade (on average, some 6 to 1 over the last several years), we expect the Allies will press for increased US defense procurement in Europe and more favorable terms on European purchases in the United States. Recent agreements for West German and Dutch procurement of the Patriot air defense missile system—both involving substantial government-to-government offsets—may well be used as a model by the Europeans in future negotiations. In addition, we expect the Allies to remain skeptical of US motives in its initiatives on exploiting emerging technologies (ET) unless the ET program defines a clear role for European industries.

- *Increased pressure to reach an MBFR agreement.* Current Allied interest in achieving meaningful progress at the conventional force reductions talks in Vienna is motivated in large part by their interest in demonstrating to nervous publics the Alliance's commitment to arms control in the absence of negotiations on INF and strategic weapons. Over the longer term, however, the Allies probably view MBFR as offering the best prospect of reduced defense costs through lower force levels. Thus, while the negotiations offer little prospect of short-term savings, we expect Allied interest in the negotiating progress—and thus pressure to accommodate Eastern interests—to remain high.

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[6] Projects encompass fixed installations in member countries necessary for the deployment and operation of the NATO forces such as airfields, communications facilities, headquarters, pipelines and fuel storage, radar facilities, ports, and missile installations.

- *Expanded US reinforcement and pre-positioning planning to offset declines in national capabilities.* As national force levels decline because of budgetary cuts, defense of sectors manned by the smaller Allies in particular may increasingly become dependent upon arrangements for early US troop reinforcement and related materiel pre-positioning. Reinforcement and pre-positioning already are considered critical to the defense of the northern flank, particularly in Norway, and further reductions in the peacetime strength of both Norwegian and Danish forces are projected over the next several years. As Belgium and the Netherlands come under increasing pressure to achieve savings through force reductions, the demand for US reinforcements for the Central Region—with consequent requirements for enhanced US strategic lift capability and logistic support—could increase as well. 25X1

Over the long term, we expect that the economic barriers to a substantial conventional force buildup will not lessen European discomfort over NATO's dependence on its nuclear deterrent. We believe that any debate over NATO doctrine is less likely to focus on nuclear dependence, per se, than on the proper conventional strategy and force mix to reduce that dependence. As the West European Allies address these issues in an era of economic stringency, their concerns over the state of US-European defense trade—as well as US restrictions on technology transfer—are likely to affect their attitudes toward both the scope and pace of NATO's conventional force modernization effort. They almost certainly will continue to express reservations over the emerging technologies initiative and related doctrinal issues such as "deep attack" strategies. We expect the major Allies, particularly the West Germans, to emphasize proven weapon systems over unproven future technologies and increasingly to use the two-way street issue in arguing against the allocation of major new funding for the procurement of advanced weaponry. On the other hand, should they recognize significant, tangible prospects for participation of European defense industries in any new initiative they may be more willing to allocate government resources in support of specific projects. 25X1

Appendix A

Major Resource Categories as a Share of Defense Expenditures

Percent

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Belgian defense expenditures										
Personnel	62.29	61.41	63.33	63.46	61.46	64.03	61.08	61.23	62.23	62.2
Procurement	8.80	9.11	11.10	11.90	13.93	13.14	14.23	15.77	13.66	14.9
Operations and maintenance	18.35	18.91	17.84	17.51	16.90	16.10	17.31	17.90	18.97	17.0
Construction	6.60	7.39	6.16	5.10	5.59	4.89	5.82	3.34	3.00	3.0
Other	3.96	3.18	1.57	2.04	2.12	1.84	1.56	1.77	2.14	2.9
Canadian defense expenditures (fiscal years)										
Personnel	68.60	64.40	63.30	60.90	58.50	56.90	51.00	53.30	51.50	49.90
Procurement	5.83	6.20	7.98	8.45	10.00	12.80	16.10	15.90	17.40	18.80
Operations and maintenance	22.30	26.40	26.00	27.50	27.80	27.00	29.90	27.60	28.80	28.90
Construction	2.50	2.18	2.01	2.29	2.36	1.41	1.65	1.49	1.09	1.07
Other	0.75	0.79	0.70	0.77	1.30	1.92	1.35	1.69	1.31	1.38
Danish defense expenditures										
Personnel	58.03	59.85	58.77	57.48	58.04	57.81	55.33	56.25	56.09	
Procurement	19.10	18.98	19.43	21.81	16.43	16.32	18.26	17.66	16.77	
Operations and maintenance	17.67	15.84	16.72	16.37	21.14	21.47	21.97	20.83	22.49	
Construction	0.69	1.84	1.60	1.31	1.11	1.20	0.97	1.12	0.96	
Other	4.50	3.50	3.47	3.03	3.29	3.20	3.47	4.13	3.69	
West German defense expenditures										
Personnel	51.51	51.26	50.70	50.03	48.47	48.92	48.17	47.46	46.41	46.07
Procurement	11.93	11.80	13.22	12.47	12.98	13.65	14.76	17.32	17.93	17.56
Operations and maintenance	24.54	24.89	25.10	24.45	24.64	24.57	23.97	22.83	22.99	23.90
Construction	5.27	5.37	5.06	6.11	6.79	5.69	5.21	4.37	4.43	4.52
Other	6.75	6.67	5.92	6.93	7.12	7.17	7.89	8.02	8.24	7.95
Greek defense expenditures										
Personnel	66.15	65.88					54.58	51.23	51.36	
Procurement	11.05	11.39					18.76	19.51	21.25	
Operations and maintenance	15.73	15.84					23.21	25.19	23.79	
Construction	4.59	4.28					2.66	2.41	2.41	
Other	2.48	2.60					0.79	1.66	1.19	

Major Resource Categories as a Share of Defense Expenditures (continued)

Percent

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Italian defense expenditures										
Personnel	62.49	61.00	64.22	64.82	59.11	61.78	62.27	59.18	59.63	59.49
Procurement	15.18	13.92	13.07	15.65	16.16	15.14	17.48	17.28	18.06	18.18
Operations and maintenance	15.78	17.74	18.09	14.80	15.15	14.37	16.42	17.75	17.17	17.17
Construction	1.00	1.18	1.50	1.56	1.53	1.07	1.13	1.79	2.03	2.03
Other	5.55	6.17	3.12	3.17	8.05	7.63	2.70	4.01	3.11	3.14
Dutch defense expenditures										
Personnel	66.41	64.63	64.44	57.83	61.17	59.27	59.01	56.23	55.03	54.24
Procurement	13.21	15.66	15.21	20.57	17.95	19.80	17.98	18.79	20.45	22.05
Operations and maintenance	15.99	15.29	15.66	16.34	16.36	16.60	18.78	19.19	18.55	18.36
Construction	2.08	2.33	2.66	2.90	2.40	2.05	2.01	2.44	2.47	2.43
Other	2.32	2.08	2.03	2.35	2.12	2.28	2.23	3.36	3.49	2.92
Norwegian defense expenditures										
Personnel	65.00	64.40	67.20	66.00	64.40	63.40	62.40	61.40	61.70	61.50
Procurement	8.66	8.69	8.38	10.50	13.00	14.10	13.60	13.40	13.60	12.30
Operations and maintenance	22.80	22.80	20.50	20.20	19.30	19.00	20.10	21.10	20.70	21.70
Construction	2.22	2.63	2.37	2.15	1.78	2.34	2.42	2.37	2.33	2.59
Other	1.28	1.44	1.49	1.22	1.52	1.13	1.46	1.65	1.69	1.95
Portuguese defense expenditures										
Personnel	61.15	67.79	67.56	69.11	72.21	67.50	66.62	65.67	64.24	64.23
Procurement	3.06	1.91	1.95	2.10	1.83	3.83	6.16	6.51	6.02	6.06
Operations and maintenance	15.23	17.13	22.31	19.00	19.08	20.39	20.80	19.76	22.02	21.90
Construction	1.09	1.63	1.82	2.76	3.88	5.11	5.13	5.84	5.28	5.57
Other	19.48	11.53	6.36	7.03	3.01	3.18	1.30	2.23	2.45	2.25
British defense expenditures (fiscal years)										
Personnel	47.84	46.87	45.69	43.79	43.34	43.23	40.06	39.36	37.38	36.86
Procurement	17.20	19.28	20.60	22.04	22.98	23.22	25.18	26.44	27.78	27.87
Operations and maintenance	27.38	26.54	26.48	27.20	28.07	26.46	27.89	27.98	28.64	28.79
Construction	2.39	2.31	1.90	1.77	0.32	1.75	2.08	1.71	1.82	2.07
Other	5.19	5.01	5.32	5.20	5.28	5.34	4.79	4.51	4.37	4.41
Turkish defense expenditures (fiscal years)										
Personnel	57.1	50.03	50.0				60.6	49.7	43.2 [a]	41.6
Procurement	16.6	36.1	36.1				4.7	9.4	10.8 [a]	10.1
Operations and maintenance	20.5	5.8	5.8				21.3	24.2	26.5 [a]	34.1
Construction	4.2	5.1	5.1				11.8	14.2	14.5 [a]	12.0
Other	1.7	2.9	2.9				1.6	2.5	5.0 [a]	2.2

[a] In 1982 Turkey changed from fiscal years to calendar years. These figures are for March-December.

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Appendix B

Table B-1
NATO Defence Expenditures: Current US Dollars [a]

Million US $
(current exchange rates)

	1970	1978	1979	1980	1981	1982	1983	1984
Belgium	750	3,167	3,632	3,958	3,385	2,892	2,683	2,609
Canada	1,967	4,087	4,119	4,703	5,245	6,205	6,527	7,158
Denmark	368	1,315	1,519	1,618	1,446	1,400	1,417	NA
France	5,882	18,874	22,668	26,425	23,867	22,521	21,503	20,591
Greece	474	2,119	2,424	2,275	2,578	2,639	2,336	2,328
Italy	2,499	6,246	7,785	9,578	8,681	9,090	9,698	10,494
Luxembourg	8	37	42	53	46	41	43	42
Netherlands	1,080	4,227	5,038	5,269	4,527	4,465	4,247	4,027
Norway	388	1,306	1,454	1,669	1,650	1,698	1,706	1,689
Portugal	436	623	702	868	844	803	694	632
Turkey	542	2,728	3,001	2,442	2,815	2,755	2,469	2,156
United Kingdom	5,865	14,619	19,155	26,776	24,627	24,243	24,498	24,794
West Germany	6,167	21,417	24,778	26,692	23,094	22,350	22,127	21,514
Non-US NATO	26,418	80,765	96,317	112,326	102,806	101,102	99,948	
United States	77,854	109,247	122,279	143,981	169,888	196,345	217,702	

[a] Defense expenditures expressed in US dollars are valuable in the analysis of relative transnational defense spending at a point in time. Because inflationary changes cannot be separated from changes in exchange rates, however, it is not an accurate reflection of the relative inflationary trends in defense spending over time.
[b] CIA estimate.

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Table B-2
NATO Defense Expenditures: National Currencies [a]

Millions, current prices

	1970	1978	1979	1980	1981	1982	1983	1984
Belgium (*B francs*)	37,502	99,726	106,472	115,754	125,689	132,127	137,162	144,126
Canada (*C dollars*)	2,061	4,662	4,825	5,499	6,289	7,655	8,086	8,987
Denmark (*D kroners*)	3,195	7,250	7,990	9,117	10,301	11,669	NA	NA
France (*francs*)	34,907	85,175	96,439	111,672	129,708	148,021	158,792	171,021
Greece (*drachmae*)	14,208	77,861	89,791	96,975	142,865	176,270	205,757	237,998
Italy [b] (*lire*)	1,562	5,301	6,468	8,203	9,868	12,294	14,729	17,445
Luxembourg (*L francs*)	416	1,154	1,242	1,534	1,715	1,893	2,100	2,297
Netherlands (*guilders*)	3,968	9,146	10,106	10,476	11,296	11,921	12,121	12,403
Norway (*N kroners*)	2,774	6,854	7,362	8,242	9,468	10,956	12,447	12,990
Portugal (*escudos*)	12,538	27,354	34,343	43,440	51,917	63,817	76,925	84,203
Turkey (*T liras*)	6,237	66,239	93,628	185,656	313,067	447,790	556,738	679,220
United Kingdom (*pounds*)	2,444	7,616	9,029	11,510	12,144	13,849	16,031	17,283
West Germany (*Deutsche marks*)	22,573	43,019	45,415	48,518	52,193	54,234	56,496	58,141

[a] Expressing expenditures in national currencies at current prices is valuable in the analysis of each country's trend in defense spending. Current prices do not distinguish between real changes and inflation in defense expenditures, however, nor do measures in different currencies permit transnational comparisons.
[b] Billions.

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Table B-3
NATO Defense Expenditures: Constant Dollars [a]

Million 1983 US $

	1970	1978	1979	1980	1981	1982	1983	1984 [b]
Total	**75,615**	**88,828**	**90,554**	**93,013**	**95,665**	**98,196**	**99,948**	**101,161**
Belgium	1,747	2,713	2,774	2,828	2,854	2,763	2,683	2,672
Canada	5,370	5,547	5,508	5,714	5,896	6,200	6,527	6,853
Denmark	1,217	1,389	1,392	1,402	1,410	1,406	1,417 [c]	1,409 [c]
France	14,553	19,133	19,603	20,314	21,073	21,503	21,503	21,610
Greece	796	2,066	2,010	1,856	2,341	2,343	2,336	2,324
Italy	7,235	8,643	8,873	9,331	9,284	9,591	9,698	9,775
Luxembourg	17	29	31	37	39	41	42	43
Netherlands	3,464	3,838	4,006	3,924	4,058	4,132	4,247	4,332
Norway	1,325	1,490	1,519	1,547	1,590	1,658	1,706	1,766
Portugal	1,165	601	641	682	688	691	694	700 [c]
Turkey	378	2,172	2,221	2,269	2,311	2,422	2,469	2,518
United Kingdom	22,111	20,805	21,273	21,908	22,219	23,739	24,498	24,988
West Germany	16,237	20,402	20,713	21,201	21,902	21,707	22,127	22,171

[a] Defense expenditures in constant dollars reflect real changes in defense spending over time. Relative distortions can develop, however, depending on the conversion year selected because all currencies have not revalued at the same pace.
[b] Forecast.
[c] CIA estimate.

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Appendix C

Selected Countries: Total Government Spending as a Share of GDP [a]

Percent

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 [b]
West Germany														
Total outlays	38.6	40.1	40.8	41.5	44.6	48.9	48.0	48.0	47.7	47.6	48.4	49.3	49.4	48.9
Social welfare	21.5	21.8	22.6	23.1	24.6	27.8	27.7	27.6	27.3	26.6	28.7	29.5	NA	NA
Defense	3.3	3.4	3.4	3.5	3.6	3.7	3.5	3.4	3.3	3.3	3.3	3.4	3.4	3.4
France														
Total	38.9	38.3	38.3	38.5	39.7	43.5	44.0	44.2	45.2	45.5	46.4	49.2	50.7	52.1
Social welfare	19.2	19.3	19.4	19.8	20.5	22.9	23.0	24.0	24.9	25.2	25.9	27.2	NA	NA
Defense	4.2	4.0	3.9	3.8	3.7	3.8	3.8	3.9	4.0	4.0	4.0	4.2	4.2	4.2
United Kingdom														
Total	39.2	38.2	39.8	40.8	45.0	46.6	45.8	43.8	43.3	43.2	45.4	48.0	47.4	48.2
Social welfare	16.4	16.7	17.4	17.1	18.4	19.5	19.6	19.7	20.4	20.4	21.4	23.5	NA	NA
Defense	4.7	4.9	5.1	4.8	5.0	4.9	4.9	4.7	4.6	4.7	5.1	4.9	5.1	5.6
Italy														
Total	34.2	36.6	38.6	37.8	37.9	43.2	42.2	42.5	46.1	45.5	46.1	51.2	53.7	55.6
Social welfare	20.0	21.9	23.1	22.9	23.5	22.6	22.6	22.1	23.0	22.9	22.8	24.7	NA	NA
Defense	2.7	2.9	3.1	2.9	2.6	2.5	2.3	2.4	2.4	2.4	2.4	2.5	2.6	2.8
Belgium														
Total	36.5	38.0	38.8	39.1	39.4	44.5	45.0	46.6	47.9	49.5	51.1	55.6	56.6	57.0
Social welfare	18.5	18.9	19.8	20.4	21.4	24.5	24.9	26.2	26.4	27.1	27.6	30.2	NA	NA
Defense	2.9	2.8	2.8	2.8	2.8	3.1	3.1	3.1	3.3	3.3	3.3	3.5	3.4	3.4
Netherlands														
Total	46.0	48.0	48.6	49.3	51.5	56.6	56.6	54.6	55.9	58.0	59.5	61.1	63.7	64.8
Social welfare	20.8	22.0	23.1	23.7	25.2	28.1	28.5	29.2	30.1	31.2	30.5	31.7	NA	NA
Defense	3.5	3.4	3.4	3.3	3.1	3.2	3.0	3.3	3.1	3.2	3.1	3.2	3.2	3.3
Denmark														
Total	40.2	43.0	42.6	42.1	45.9	48.2	47.8	48.9	50.6	53.2	56.2	59.5	60.7	63.0
Social welfare	19.5	20.7	20.8	21.1	23.9	25.6	24.6	25.1	26.0	26.9	28.7	29.3	NA	NA
Defense	2.3	2.4	2.2	2.1	2.3	2.4	2.3	2.3	2.3	2.3	2.4	2.5	2.5	2.4

[a] Represents general government spending, including national, state, and local governments; therefore, data for total outlays is not comparable to data in table 1.
[b] Estimate.

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